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C O N F I D E N T I A L CARACAS 000773

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NSC FOR CBARTON
ENERGY FOR DPUMPHREY & ALOCKWOOD
TOKYO FOR SFLATT

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SUBJECT: VENEZUELA: CRUDE DIVERTED FROM U.S. TO CHINA AND INDIA?

REF: CARACAS 713

Classified By: Economic Counselor Richard Sanders; for reasons 1.4 (b) and (d)

SUMMARY

1. (C) A Venezuelan shipping agent has reportedly brokered the lease of two VLCCs (very large crude carriers) to PDVSA for use in shipping crude to China and India. Our source believes this trader is now negotiating the lease of two additional VLCCs. Another source reports that the Energy Ministry has instructed traders to start to divert any shipments they can away from the U.S. to other buyers. End Summary.

VLCC LEASE

2. (C) A U.S. executive whose company has had long term involvement in the sales, marketing and transport of Venezuelan heavy oil, informed econoff March 11 that Wilmer Ruperti, a Venezuela-based shipping agent and trader, closed a deal recently for the lease of two VLCCs to Venezuelan state oil corporation Petroleos de Venezuela (PDVSA) for use in shipping crude to Asia. These will reportedly be five-year leases. The U.S. executive believes Ruperti is now brokering the lease of two additional VLCCs with companies identified as World Wide Tankers and/or Fredrickson. He believes the VLCCs will be operated by Novoship, a Russian company.

3. (C) The U.S. executive asserts that as contracts for the sale of Venezuela's Mesa and Santa Barbara crudes held by ConocoPhillips, ExxonMobil, Premcor and Valero expire they will be replaced with sales to India and China as well as other Far East buyers. The additional freight costs will, he said, be off-set because once the VLCCs off-load their Venezuelan cargo they will go to India to load Basra or other Arabian Gulf crudes for other Asian, European or U.S. destinations. He added that although PDVSA will lose money relative to selling into the U.S. market (as much as \$6 per barrel according to the one contract with China we have seen so far), this would be acceptable because of gains to Venezuelan businessmen such as Ruperti who will be expected to use at least some of the money they have made in support of the Chavez Administration.

DIVERTING CONTRACTS FROM U.S.?

4. (C) Separately, an ExxonMobil manager told econoff March 10 that a long term source had informed him early in the week of March 7 that the Energy Ministry has instructed "traders" to start to divert any shipments they can away from the U.S. to other buyers.

COMMENT

5. (C) If these reports are true, the GOV is taking actions in support of President Chavez's public statements about selling oil to Asian markets, and in contradiction to Foreign Minister Rodriguez's recent affirmations that the GOV would continue to sell oil to the U.S. and would cover exports to Asia through increased production (see reftel). The lease of VLCCs would also serve to put some teeth into his threats to cut off oil shipments to the U.S.

6. (C) A good part of the approximately 1.5 million barrels per day of Venezuelan oil that flows into the U.S. market, however, is sold under long-term supply agreements to CITGO and other buyers such as those listed above. According to

the Form S-4 filed by CITGO with the SEC on January 18, 2005, PDVSA's supply agreements with the individual CITGO refineries expire in 2006 through 2013. The S-4 goes on to state that the supply agreements give either party a right to terminate the agreements upon six months notice if PDVSA no longer retains an ownership interest. Although the GOV is showing an increasing willingness to disavow contract terms, it is likely that those supply agreements will be honored unless PDVSA sells CITGO or there is a major rupture in the bilateral relationship. The GOV's continued need for massive amounts of cash to finance its aggressive social spending program would also militate against a major shift away from the U.S. market in the near term. But crude shipments to China and India, even if on a token scale for now, should be considered as an expanded market development effort on the part of the GOV and as fulfillment of President Chavez's public statements.
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